B5350-2 3/29/82

The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 29, 1982 VOLUME XIX, NUMBER 13

## If It's Not One Thing . . .

One indication of the uncertainty overhanging the financial markets is the seemingly endless array of negative factors which continues to dominate their behavior. Just as one disappears, another arises. For instance, at the beginning of the year there was concern over the bulge in the money supply, with its implications for interest rates and inflation psychology. Then it was fears of a deeper-than-expected recession, with its impact on corporate profits. More recently, it was the clash between fiscal and monetary policies. But with signs on the horizon that the recession may be bottoming out, the likelihood that the rate of inflation has indeed moved to a permanently lower plateau and the general relief that much of the early January money supply bulge has been worked down, the markets have had to find another excuse for their gloomy performance. As a result, they have shifted their focus once again to that old standby—the dismal Federal budget outlook.

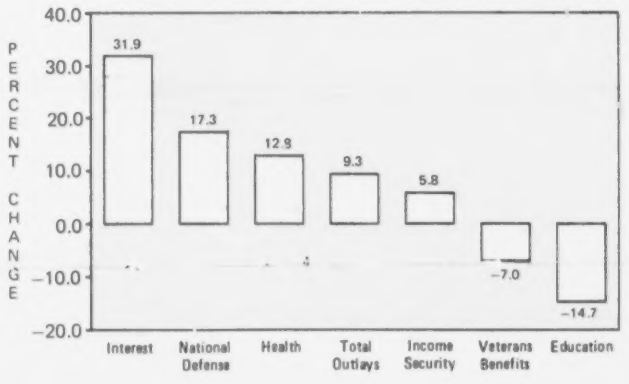
Indeed, scarcely a day goes by without the size of the potential Federal deficit in fiscal 1982 and beyond being revised upward. Although a record budget deficit may yet occur in this fiscal year, it would be hard to tell from the budget performance so far. According to the Treasury Department, the Federal budget posted a $14.78 billion deficit in February, about $1 billion less than the $15.58 billion red ink total registered in February, 1981. This brings the five-month, fiscal 1982 deficit to $53.66 billion, $2 billion less than the red ink total recorded during the October-February period of fiscal 1981. What makes this accomplishment all the more remarkable is that it occurred against the backdrop of a rapidly contracting economy, widespread joblessness, a substantial slowing in the rate of inflation and well-publicized predictions that this year's deficit could reach as high as $110 billion, if not more.

What is more, even off-budget spending, which had soared from less than $3 billion in fiscal 1974 to more than $20 billion in fiscal 1981, has held steady this year. During the first five months of fiscal 1982, off-budget expenditures, primarily those of the Federal Financing Bank, totaled just a shade more than $5 billion, about equal to the amount spent during the comparable fiscal 1981 period. Including these outlays with the on-budget expenditures results in an overall five-month, fiscal 1982 deficit of $58.7 billion, compared with $60.7 billion one year ago. A continuation of these trends would produce an "enlarged" Federal deficit of about $76 billion this year, or $3 billion below last year's record $78.9 billion deficit—and some $50 billion less than some current estimates.

## . . . It's Another . . .

In light of all the pessimism surrounding Federal finances, this news appears too good to be true because the combination of circumstances which produced the relatively good budget performance so far this year is unlikely to persist. The substantial contraction of the economy which occurred in late 1981 and early 1982 as well as the slowing in the rate of inflation will eventually dampen receipts and boost counter-cyclical expenditures, while the ten per cent across-the-board personal income tax cut scheduled to take effect on July 1 will also take a heavy toll on revenues.

PERCENT CHANGE IN THE SIX LARGEST COMPONENTS OF THE FEDERAL BUDGET: FISCAL 1982 TO DATE VS. COMPARABLE FISCAL 1981 PERIOD




But whether or not the deficit does reach as high as $99 billion in the current fiscal year, one thing is for sure—it is unlikely to wind up less than that recorded last year. What this means is that the Treasury's credit needs, which often moderate at

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this time of year, could be in for a major increase. This means no net paydown of Treasury debt in the second quarter, as there was in 1981, and borrowing requirements in the third quarter substantially larger than the $22.9 billion of net new cash raised in third quarter, 1981.

### . . . Depressing The Financial Markets

Trends in Federal expenditures do not suggest a significant improvement in the Federal budget outlook, either. Due to the added emphasis being placed on national defense, military outlays are now expanding at a monthly rate approximately $2 billion higher than spending levels achieved during the first five months of fiscal 1981—accounting for more than 40 per cent of the $25 billion year-over-year spending gain. On the other hand, such income security outlays as inflation-indexed Social Security payments are also rising—but at a slower rate. They increased by $5.7 billion during the first five months of fiscal 1982, compared with the same period of fiscal 1981—accounting for about one-fifth of the overall spending increase.

But while the upturn in defense-related spending and curbs on nondefense spending have been widely publicized, an even faster-growing component of Federal spending—net interest payments on the ever-expanding Federal debt—has not. Net interest outlays are also averaging about $2 billion per

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 3/17/82 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 134.102 | + 2.569 | + 6.658 |
| Loans to Depository Inst. | 1.464 | + .017 | + .691 |
| Float | 2.031 | – 1.096 | – 1.317 |
| Total Reserve Bank Credit | 146.660 | + 1.709 | + 5.018 |
| Treasury Deposits with Federal Reserve Banks | 3.074 | – .556 | – .057 |
| Currency Outside Banks | 126.407 | + 1.454 | + 6.411 |
| Member Bank Reserves: | | | |
| Required | 38.913 | + .744 | – .672 |
| Excess (Deficiency) | .215 | – .110 | – .017 |
| Total Reserves Held | 39.128 | + .634 | – .689 |
| Net Borrowed Reserves | 1.062 | + .091 | + .714 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 92.679 | – 2.585 | – 5.270 |

| Monetary Aggregates † | | % Change Since Three Months Ago* | % Change Since Year Ago |
|---|---|---|---|
| M1 | 449.0 | + 8.4‡ | + 5.9‡ |
| M2 (February '82) | 1,847.2 | + 8.3 | + 10.1 |
| M3 (February '82) | 2,214.2 | + 7.3 | + 10.6 |
| L (November '81) | 2,627.2 | + 10.5 | + 11.7 |

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

## New York Money Market

| Offering Rates 3/26/82 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 12.60% | 12.70% | 12.40% |
| * Federal Agencies | 13.00 | 13.70 | 13.80 |
| * Project Notes—Taxfree (46% Taxable Equivalent) | 13.52 | 14.81 | NA |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 14.40 | 14.55 | 14.88 |

| ‡Finance Company Paper—Prime | |
|---|---|
| 5- 14 days | 12.00% |
| 15- 29 days | 13.00 |
| 30- 59 days | 13.25 |
| 60- 89 days | 12.50 |
| 90-179 days | 12.50 |
| 180-239 days | 12.50 |
| 240-270 days | 12.50 |

| ‡* Bankers' Acceptances | |
|---|---|
| Apr. | 13.70% |
| May | 13.70 |
| Jun. | 13.70 |
| Jul. | 13.65 |
| Aug. | 13.55 |
| Sep. | 13.35 |

| ‡Industrial Paper—Prime | |
|---|---|
| 30- 89 days | 13.88% |
| 90-120 days | 13.75 |

†Federal Funds Effective Rate 14.30%

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 4th Q'81 | $ 2,998 | $ 2,965 | $ 2,731 |
| Gross National Product (1972 Dollars)* | 4th Q'81 | $ 1,498 | $ 1,516 | $ 1,486 |
| Percent Change, Annual Rate | 4th Q'81 | – 4.5 | 1.4 | 3.8 |
| Change in Consumer Prices (all urban consumers)* | Feb '82n | 4.4% | 3.6% | 12.0% |
| Change in Producer Prices* | Feb '82 | – 1.2% | 4.8% | 9.6% |
| Civilian Employment (Thousands of Persons)† | Feb '82 | 99,590 | 99,581 | 100,069 |
| Unemployment as % of Civilian Labor Force† | Feb '82 | 8.8% | 8.5% | 7.4% |
| Personal Income* | Feb '82 | $ 2,510 | $ 2,498 | $ 2,318 |
| Leading Indicators Composite Index (1967=100)† | Jan '82 | 127.0 | 127.8 | 135.2 |
| Industrial Production Index (1967=100) † | Feb '82 | 141.8 | 139.6 | 151.8 |
| Net Change in Consumer Installment Credit† | Jan '82 | $ 0.44 | –$ 0.03 | $ 1.21 |
| U.S. Merchandise Trade Balance † | Jan '82 | –$ 4.09 | –$ 0.86 | –$ 3.71 |
| Plant and Equipment Expenditures* | 2nd Q'82 | $336.77 | $345.46 | $316.73 |
| Private Housing Starts (Thousands of Units)* | Feb '82 | 953 | 895 | 1,294 |
| New Construction Expenditures* | Jan '82 | $ 231.0 | $ 234.4 | $ 259.0 |
| Total Business Inventories† | Jan '82 | $ 509.7 | $ 511.8 | $ 478.5 |
| Total Business Sales† | Jan '82 | $ 336.9 | $ 342.3 | $ 352.5 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

month higher than year-earlier levels, and could reach almost $110 billion for the fiscal year as a whole—equivalent to almost $500 for every man, woman and child in the United States. (See chart on page 1).

### To Be, Or Not To Be

The prospect for an ever-widening Federal budget deficit is not the only negative overhanging the financial markets. As April approaches, expectations are rife among financial market participants that a big surge in the money supply is just around the corner. This is due to the anticipated disbursement of larger-than-usual income tax refunds, along with the apparent inability of the Fed's seasonal factors to fully adjust for regularly-recurring money growth developments at this time of year. If such a money bulge does occur, as it did last April, it is feared that the Federal Reserve will have little choice but to tighten the monetary reins again, pushing interest rates higher and prolonging the current recession.

At first glance, it appears that conditions do exist for another money supply surge. Whereas income tax refunds totaled $37.4 billion during the March-May 1981 period, they could exceed $45 billion during the same months of this year, producing a substantial shift of funds from Treasury balances, which are not included in the money supply, to private balances, which are. Part of the reason for

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Negotiable Time CD's Weekly Reporting Banks** | | | |
| Nationwide (3/10/82) | 133,454 | – 832 | +22,975 |
| New York City (3/10/82) | 32,756 | – 90 | + 5,804 |
| **Commercial Paper** (3/10/82) | 169,068 | + 624 | +37,840 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (3/10/82) | 199,000 | + 181 | +29,580 |
| New York City (3/10/82) | 55,660 | + 131 | + 6,241 |

**Total Loans Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (3/10/82) | 474,035 | + 1,757 | +52,507 |
| New York City (3/10/82) | 109,605 | – 87 | +11,486 |

## Financial Markets

| | Friday 3/26/82 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 13.48% | – .01 | + .41 |
| 180-Day Bills† | 14.02 | + .53 | + 1.35 |
| Longest Bills† | 13.99 | + .08 | + 1.82 |
| **Recent Issues:** | | | |
| 14⅛s 3/31/84 (When Issued) | 14.25 | – .05 | |
| 14s 3/31/86 (When Issued) | 14.19 | NA | |
| 14⅝s 2/15/92 | 13.92 | + .28 | |
| 14s 11/15/11 | 13.49 | + .08 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (3/25/82) | 13.04% | + .05 | + 2.95 |
| Blue List Total ($ Million) | $ 846 | – $ 88 | – $ 44 |
| 30-Day Visible Supply ($ Million) | $2,675 | + $324 | – $ 40 |
| Total | $3,521 | + $336 | – $ 84 |
| **Corporates:** | | | |
| Moody's Aa Composite (3/25/82) | 15.24% | + .05 | + 1.34 |
| 30-Day Visible Supply ($ Million) ‡ | $3,100 | + 465 | NA |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 817.92 | + 12.27 | – 176.86 |
| Transportation | 332.32 | + 3.16 | – 97.97 |
| Utilities | 108.57 | + 1.99 | + 1.04 |
| 65 Stocks | 321.66 | + 4.47 | – 64.36 |
| **Standard and Poor's 500 Stocks** | 111.94 | + 1.33 | – 22.71 |
| **N.Y.S.E. Composite Index** | 64.53 | + .91 | – 13.06 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 53,736 | + 5,058 | – 3,932 |

* 46% Taxable equivalent 24.15%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 3/26/82 | Week Ago |
|---|---|---|
| Overnight | 14.50% | 15.19% |
| 1 month | 14.94 | 15.25 |
| 3 month | 15.25 | 15.25 |
| 6 month | 15.31 | 15.19 |
| 1 year | 15.13 | 15.13 |
| **EURODOLLAR BONDS Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 14.85% | 14.70% |
| Long Term (7 to 15 yrs.) | 14.75 | 14.75 |

| FOREIGN EXCHANGE SPOT RATES New York Opening (3/26/82) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .02209 | 45.27 |
| Canada | .8147 | 1.2274 |
| Denmark | .1225 | 8.1650 |
| France | .1596 | 6.2665 |
| Germany | .4170 | 2.3983 |
| Italy | .0007597 | 1316.30 |
| Japan | .004040 | 247.55 |
| Mexico | .02211 | 45.22 |
| Netherlands | .3764 | 2.6565 |
| Switzerland | .5237 | 1.9095 |
| U.K. | 1.7875 | .5594 |

the anticipated swelling of tax refunds is the widespread joblessness which developed toward the end of last year. Those who lost their jobs in 1981 probably overpaid the Treasury while working, since taxes were paid based upon a withholding schedule which assumed full-year employment.

Last year, the combination of tax refunds and inadequate seasonal adjustments were the major—but not the only—reasons for the almost 30 per cent, seasonally adjusted annual rate of M1-B growth during the month ending April 22. An easing by the Fed was a factor, too. This is why, despite the possibility of inadequate seasonal adjustments, it could well be that a repeat performance may be avoided. For, seemingly in anticipation of just such a development, the Fed this time has maintained a restrictive policy posture.

During the 13 weeks ending March 17, for example, nonborrowed bank reserves have contracted at an approximately nine per cent seasonally adjusted annual rate. This stands in sharp contrast with the almost 15 per cent seasonally adjusted annual rate of rise in these reserves during the 13 weeks immediately preceding the April, 1981 money supply bulge. This year's contraction in nonborrowed reserves could dampen whatever upward tendencies might develop for money growth in the next few weeks.

But even if it doesn't, another development may. Since the pace of individual tax filings so far this year has been extremely sluggish, by the time the massive volume of returns expected in early April is processed and refunds issued, it may well be May or June—not April—before a tax refund-induced money supply bulge appears.


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